

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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November 19, 2009

Mr. Guido Marucut,
Department Chief Accountant
City of Los Angeles
Department of Transportation
100 South Main Street, 10th Floor
Los Angeles, California 90012

Re: City of Los Angeles, Department of Transportation
Audit of Indirect Cost Rate Plan for FYs 05/06 & 06/07
File No: P1590-0016 (1190-0659) and File No: P1590-0017 (1190-0659A)

Dear: Mr. Marucut

We have audited the City of Los Angeles (City), Department of Transportation's (LADOT) Indirect Cost Rate Plan (ICRP) for the fiscal years (FY) ended June 30, 2006, and June 30, 2007, to determine whether the ICRP is presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The LADOT management is responsible for the fair presentation of the ICRP. The LADOT proposed the following indirect cost rates:

Overhead Rate Description	FY 2006 (CAP 28)	FY 2007 (CAP 29)
Department of Admin & Support	8.04%	8.10%
Compensated Time Off	23.04%	21.21%
The base for the two rates above is direct salaries and wages.		
*Fringe Benefits	40.85%	44.60%
*Central Service	26.38%	28.00%

The base for the two rates above is direct salaries and wages plus compensated time off.

*These rates were approved by the U.S. Department of Health and Human Services.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an

opinion on the financial statements of the City. Therefore, we did not audit and are not expressing an opinion on the City's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the City and the LADOT, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of the City and the LADOT in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the rates and figures included in the ICRP, a comparison of the ICRP to single audit reports for the FYs ended June 30, 2006 and June 30, 2007, and inquiries of the LADOT personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICRP as of July 30, 2008. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Eva Manalang, DOT Sr. Accountant, on July 31, 2008. Our findings and recommendations take into consideration LADOT's response to our draft findings dated September 13, 2009. Our findings and recommendations, a summary of LADOT's response and our analysis of the response are detailed below. See Attachment I for a copy of LADOT's response.

AUDIT RESULTS

Based on audit work performed, LADOT's ICRPs for the FYs ended June 30, 2006, and June 30, 2007, are presented in accordance with 2 CFR Part 225 and LPP 04-10. Therefore, the indirect cost rates on the previous page are approved as submitted.

The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding 1

We reviewed the FY ending June 30, 2007, Single Audit and Management letter issued to the City and found that the City has not resolved the exception identified by the independent auditor. The reported exception and recommendation are relevant to the LADOT and therefore to the grant funds billed to the Department. It is as follows:

Finding 07-01 - During the FY ended June 30, 2007, the following deficiencies were found in the City's procurement system, SMS and process:

1. The receipts information was not being input in a timely manner.
2. The payment voucher approval process lacked segregation of duties.
3. Reconciliation by account balances between SMS and FMIS was not being performed.
4. There was no internal voucher reconciliation between SMS and FMIS.
5. The data was not synchronized among the tables within SMS.
6. Completed purchase orders were not being properly closed.
7. Sequel updates were not being properly prepared.

49 CFR Part 18.20 (b)(1) states, in part, that financial management systems provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. 49 CFR Part 18 (b) & (6) require in part, that grantees and subgrantees maintain records which adequately identify the source and application of funds, and that they are supported by such source documentation as time and attendance records.

2 CFR Part 225, Appendix B(26) - Materials and supplies costs - (b) Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied.

2 CFR Part 225, Appendix A (C) Basic Guidelines. (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented.

The City's failure to implement corrective actions to address the audit exceptions could result in the City billing for supplies and equipment at costs/rates that it cannot support. Also, if State and federal funds were used to reimburse unsupported supply and equipment costs because the City failed to take corrective actions the City could be designated "High Risk", which would result in restrictions imposed on the City by the Department.

Recommendation

We recommend the City, as well as LADOT, implement appropriate corrective actions as recommended by the single audit, to ensure that these issues are resolved.

LADOT's Response: The City of Los Angeles has made significant efforts and progress to address the SMS issues stated in the above finding.

Analysis of Response: We have reviewed LADOT's response and feel no additional information was provided. The finding and recommendation will remain the same.

Finding 2

LADOT manually segregates indirect and unallowable costs from direct costs.

49 CFR Part 18.20 (b)(1) states, in part, that financial management systems provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. 49 CFR Part 18 (b) & (6) require in part, that grantees and subgrantees maintain records which adequately identify the source and application of funds, and that they are supported by such source documentation as time and attendance records.

LPP 00-05, Recipient must have an adequate accounting system enough to accumulate and segregate reasonable, allowable and allocable direct and indirect project costs.

Manual segregation allows for greater human error in allocating costs properly.

Recommendation

LADOT should establish separate accounts to accumulate and segregate indirect and unallowable costs from project related costs.

LADOT's Response: The City of Los Angeles, through its new Financial Management System (FMS) still under development by CGI, will have the capability to accumulate and segregate indirect and unallowable costs from project related costs. This system is anticipated for implementation in July 2010.

Analysis of Response: LADOT's response was reviewed and we will review the new system when it is implemented. Until the system is implemented the finding and recommendation will remain.

Finding 3

LADOT's departmental printing and binding costs are allocated between direct and indirect, based on the breakdown of direct and indirect salaries.

As salaries have no direct relationship to printing and binding, this could result in an inequitable distribution of costs.

2 CFR Part 225, Appendix A,(F), (1) – States in part, that indirect cost pools should be distributed to benefited cost objectives on basis that will produce an equitable result in consideration of relative benefits derived.

Recommendation

Since this has been a finding in the prior three audits, we request these costs be removed from the CAP until a more equitable allocation method is developed.

LADOT's Response: Beginning FY 2007-2008, LADOT's total Departmental printing and binding costs are allocated to Department Administration based on the user.

Analysis of Response: We will review the new procedures in our next audit however, for now the finding and recommendation still stands.

Finding 4

LADOT's Central Service Rate is overstated.

2 CFR Part 225, Appendix A, C, 1, h – Basic Guidelines – Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

Including the same equipment costs in the Central Services Rate and also in the billing rate results in an over recovery of equipment costs.

Recommendation

We recommend for future ICRPs LADOT identify and remove directly billed equipment costs from the Central Service Rate and adjust the rate accordingly.

LADOT's Response: Equipment Rate directly charged from the Central Service Rate represents the Department of General Services' labor costs incurred in the vehicle/equipment repair and maintenance. On the other hand, the equipment rates applied to DOT's labor costs are for the actual usage of the vehicle/equipment.

Analysis of Response: We have reviewed the LADOT's response and still have determined this issue can result in an over recovery therefore the finding and recommendation will remain.

Finding 5

Indirect rates were being paid on outside Departments without an approved rate.

LPP 04-10, 5.2 Requirements for reimbursements states in part that if the local agency should seek reimbursement of their indirect costs, they must receive an approval letter of indirect cost rates for the FY involved from Caltrans Audits & Investigations prior to billing for indirect costs.

By not ensuring the correct approved FY rate is being used, an over/under billing could occur.

Recommendation

We recommend LADOT should ensure that they have procedures in place to monitor the correct billing from outside agencies.

LADOT's Response: LADOT exercises thorough review of the outside agency's invoices that include but is not limited to the accuracy of the amount and agreement compliance prior to reimbursement.

Analysis of Response: We have reviewed LADOT's response and feel no additional information was provided. The finding and recommendation will remain the same.

This report is intended solely for the information of LADOT, Department Management, the California Transportation Commission and the Federal Highway Administration. However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICRP for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno at (916) 323-7885 or Cliff Vose, Audit Manager, at (916) 323-7917.

LMARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation
- David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance
- Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local Assistance
- Kirk Cessna, Local Assistance Engineer, District 7
- P1590-0016 (P1190-0659) and P1590-0017 (P1190-0659A)

CITY OF LOS ANGELES

CALIFORNIA

RITA L. ROBINSON
GENERAL MANAGER



ANTONIO R. VILLARAIGOSA
MAYOR

DEPARTMENT OF
TRANSPORTATION
100 SOUTH MAIN ST., 10th FLOOR
LOS ANGELES, CA 90012
(213) 972-8400
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June 18, 2009

Cliff Vose, Audit Manager
Audits & Investigations
Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Subject: FY 05/06 & 06/07 ICRP Audit Findings

Dear Mr. Vose:

This letter is in response to your audit findings of our financial management system and indirect cost rate plan (ICRP) for fiscal years 05/06 and 06/07 for the City of Los Angeles, Department of Transportation (LADOT). The responses are indicated under the "Auditee's Response" section of each audit finding.

Finding 1

We reviewed the FY ending June 30, 2007 Single Audit and Management letter issued to the City and found that the City has not resolved the exception identified by the independent auditor. The reported exception and recommendation are relevant to the LADOT and therefore to the grant funds billed to the Department. It is as follows:

Finding 07-01 - During the FY ended June 30, 2007, the following deficiencies were not in the City's procurement system, SMS and process:

1. The receipts information was not being input in a timely manner.
2. The payment voucher approval process lacked segregation of duties.
3. Reconciliation by account balances between SMS and FMIS was not being performed.
4. There was no internal voucher reconciliation between SMS and FMIS.
5. The data was not synchronized among the tables within SMS.
6. Completed purchase orders were not being properly closed.
7. Sequel updates were not being properly prepared.

49 CFR, Part 18.20 (b)(1) states, in part, that financial management systems provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. 49 CFR, Part 18 (b) & (6) require in part, that grantees and subgrantees maintain records which adequately identify the source and application of funds, and that they are supported by such source documentation as time and attendance records.

2 CFR, Part 225, Appendix B (26) - Materials and supplies costs - (b) Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied.

2 CFR, Part 225, Appendix A (C) Basic Guidelines. (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented.

The City's failure to implement corrective actions to address the audit exceptions could result in the City billing for supplies and equipment at costs/rates that it cannot support. Also, if State and federal funds were used to reimburse unsupported supply and equipment costs because the City failed to take corrective actions the City could be designated "High Risk", which would result in restrictions imposed on the City by the Department.

Recommendation:

We recommend the City, as well as LADOT, implement appropriate corrective actions as recommended by the single audit, to ensure that these issues are resolved.

Auditee's Response:

The City's response to the Single Audit recommendation is attached. The City of Los Angeles has made significant efforts and progress to address the SMS issues stated in the above finding.

Analysis of Auditee's Response:

Finding 2

LADOT manually segregates indirect and unallowable costs from direct costs.

49 CFR, Part 18.20 (b)(1) states, in part, that financial management systems provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. 49 CFR, Part 18 (b) & (6) require in part, that grantees and subgrantees maintain records which adequately identify the source and application of funds, and that they are supported by such source documentation as time and attendance records.

LPP 00-05, Recipient must have an adequate accounting system enough to accumulate and segregate reasonable, allowable and allocable direct and indirect project costs.

Manual segregation allows for greater human error in allocation costs properly.

Recommendation:

LADOT should establish separate accounts to accumulate and segregate indirect and unallowable costs from project related costs.

Auditee's Response:

The City of Los Angeles, through its new Financial Management System (FMS) still under development by CGI, will have the capability to accumulate and segregate indirect and unallowable costs from project related costs. This system is anticipated for implementation in July 2010.

Analysis of Auditee's Response:

Finding 3

LADOT's method for allocating total Departmental printing and binding costs to Department Administration is inequitably based on a ratio of total Department Administration salaries over total Department salaries.

2 CFR 225, Appendix A,F, 1 – General – Indirect cost pools should be distributed to benefited cost objectives on basis that will produce an equitable result in consideration of relative benefits derived.

The way LADOT currently allocates their departmental printing and binding results in an inequitable distribution of indirect costs to the Department of Administration since they base their allocation on salaries which has no relation to the printing.

Recommendation:

Since this has been a finding in the prior three audits, we request these costs be removed from the CAP until a more equitable allocation method is developed.

Auditee's Response:

Beginning FY 2007-2008, LADOT's total Departmental printing and binding cost is allocated to Department Administration based on the organization of the user. It is calculated by getting the total amount of printing and binding expenditures incurred by the organizations classified as administrative.

Analysis of Auditee's Response:

Finding 4

LADOT has not backed out equipment rates that are directly charged from the Central Service Rate.

2 CFR 225, Appendix A, C, 1, h – Basic Guidelines – Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

By not backing out equipment rates that are directly charged from the Central Service Rate, LADOT is double recovering the cost of the equipment being charged directly.

Recommendation:

LADOT should identify and remove directly billed equipment rates from the Central Service Rate.

Auditee's Response:

Equipment Rate directly charged from the Central Service Rate represents the Department of General Services' labor cost incurred in the vehicle/equipment repair and maintenance. On the other hand, the equipment rates applied to DOT's labor cost are for the actual usage of the vehicle/equipment.

Analysis of Auditee's Response:

Finding 5

LADOT must review outside agency invoices to ensure the correct approved FY indirect rates are being billed.

LPP 04-10, 5.2 Requirements for Reimbursements states in part that if the local agency should seek reimbursement of their indirect costs, they must receive an approval letter of indirect cost rates for the fiscal year involved from Caltrans Audits & Investigations prior to billing for indirect costs.

By not ensuring the correct approved fiscal year rate is being used, an over/under billing could occur.

Recommendation:

LADOT should ensure that they have procedures in place to monitor the correct billing from outside agencies.

Auditee's Response:

In compliance of LPP 4.10, section 5-2, LADOT exercises thorough review of the outside agency's invoices that include but not limited to the accuracy of the amount and agreement compliance prior to reimbursement. LADOT maintains copies of other agencies' Caltrans' approved indirect rates in file. If the billed amount includes indirect cost, LADOT checks the file to verify the invoicing agency's

approved indirect cost rate. If the file does not contain the needed document, the agency is requested to submit a copy to LADOT, otherwise, the indirect cost charge is denied of reimbursement.

Analysis of Auditee's Response:

Please contact my staff, Eva Manalang at (213) 972 – 5930 or thru e-mail at eva.manalang@lacity.org, if you have any questions.

Department Chief Accountant *6/1/81*

Attachment: FY 2008 Single Audit (Finding No. 08-1 – Continued Difficulties Encountered by the SMS – Material Weakness

**CITY OF LOS ANGELES
DEPARTMENT OF TRANSPORTATION**

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City of Los Angeles – Department of Transportation (City) and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Department			
Administration Support:	7/01/05 to 6/30/06	8.04%	All Programs
Fixed with carry forward	CAP 28		
 CTO:	7/01/05 to 6/30/06	23.04%	All Programs
	CAP 28		

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

	FY 05-06
	<u>CAP 28</u>
Department Administration & Support	
Estimated FY 2005-06 Indirect Cost	\$ 10,718,648
Carry Forward	<u>-3,665,329</u>
Total Indirect Costs	<u>\$ 7,053,319</u>
Estimated FY 2005-06 Total Salaries & Wages	\$ 87,676,323
FY 2005-06 Administration & Support Indirect Cost Rate	8.04%
CTO:	<u>CAP 28</u>
FY 2005-06 Total Compensated Time Off Costs	\$ 15,319,210
FY 2005-06 Compensated Time Off Salary Base	\$ 66,489,799
FY 2005-06 CTO Rate	23.04%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year ended June 30, 2006 are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2CFR, Part 225, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Los Angeles – Department of Transportation

Signature: _____

Signature: _____

Reviewed, Approved and Submitted by: _____

Prepared by: _____

Name of Official: Selwyn Hollins

Name of Official: Guido Marucut

Title: Assistant General Manager

Title: Department Chief Accountant

Date of Execution: October 6, 2009

Telephone No.: (213) 972-8440

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature _____

Signature _____

Reviewed and Approved by: _____

Reviewed and Approved by: _____

Clifford R. Rose

Name of Audit Manager

Lisa Morrell

Name of Auditor

Title: Senior Audit Manager

Title: Associate Management Auditor

Date: 19 Nov 09

Date: October 30, 2009

Phone Number: (916) 323-7917

Phone Number: (916) 323-7885

**CITY OF LOS ANGELES
DEPARTMENT OF TRANSPORTATION**

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City of Los Angeles – Department of Transportation (City) and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Department Administration Support: Fixed with carry forward	7/01/06 to 6/30/07 CAP 29	8.10%	All Programs
CTO:	7/01/06 to 6/30/07 CAP 29	21.21%	All Programs

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee’s Single Audit or if a Single Audit is not required, then by the grantee’s audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

	FY 06-07
	<u>CAP 29</u>
Department Administration & Support	
Estimated FY 2006-07 Indirect Cost	\$ 10,705,558
Carry Forward	<u>-3,759,163</u>
Total Indirect Costs	<u>\$ 6,946,395</u>
 Estimated FY 2006-07 Total Salaries & Wages	 \$ 85,722,518
FY 2006-07 Administration & Support Indirect	
Cost Rate	8.10%
 CTO:	 <u>CAP 29</u>
FY 2006-07 Total Compensated Time Off Costs	\$ 14,456,981
FY 2006-07 Compensated Time Off Salary Base	\$ 68,167,247
FY 2006-07 CTO Rate	21.21%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year ended June 30, 2007 are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2CFR, Part 225, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Los Angeles – Department of Transportation

Signature: _____

Signature: _____

Reviewed, Approved and Submitted by: _____

Prepared by: _____

Name of Official: Selwyn Hollins

Name of Official: Guido Marucut

Title: Assist General Manager

Title: Department Chief Accountant

Date of Execution: October 6, 2009

Telephone No.: (213) 972-8440

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature _____

Signature _____

Reviewed and Approved by: _____

Reviewed and Approved by: _____

Clifford R Vose
Name of Audit Manager

Lisa Moreno
Name of Auditor

Title: Senior Management Auditor

Title: Assoc. Mgmt. Auditor

Date: 19 Nov 09

Date: October 30, 2009

Phone Number: (916) 323-7917

Phone Number: (916) 323-7885